MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016 / 2017 SESSION

DII5018 – INTRODUCTION TO INVESTMENT

(For Diploma Students Only)

1 JUNE 2017
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **10** pages with 2 sections.
2. Answer **ALL** questions.
3. Answers for Section A should be shaded on the OMR form provided.
4. For Section B, write your answers in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark).

1. Over the long term, which one of the following has historically had the lowest average annual rate of return?

   A. Small-company stocks.
   B. Long-term government bonds.
   C. Large-company stocks.
   D. Long-term corporate bonds.

2. A capital gain is computed by:

   A. subtracting the original cost of an investment from the proceeds received from the sale of that investment minus any income from the investment.
   B. subtracting the original cost of an investment from the proceeds received from the sale of that investment plus any income from the investment.
   C. subtracting the proceeds received from the sale of an investment from the original cost of the investment.
   D. subtracting the original cost of an investment from the proceeds received from the sale of that investment.

3. The adage "the sooner one receives a return on a given investment, the better," reflects the financial concept known as the:

   A. time value of money.
   B. total return concept.
   C. historical dividend theory.
   D. expected yield factor.

4. Morugan invests RM8,000 in a savings account for two years. The account pays 3.33 percent interest compounded annually. How much interest income will Morugan earn on this investment?

   A. RM266.40
   B. RM532.80
   C. RM257.27
   D. RM541.67

5. The present value of RM10 million discounted at 3 percent per year and received at the end of 10 years is:

   A. RM10,000/1.03
   B. $RM10,000,000(1.05)^{10}$
   C. $RM10,000,000/(1.03)^{10}$
   D. $RM10,000\ (1.05)^{1/10}$

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6. Time value of money can be explain as:

   A. the future value of RM1 at the end of a year is equal to RM1 times 1 plus the annual interest rate.
   B. the interest rate increases for any given year, the future value interest factor will decrease.
   C. the future value of RM1 decreases with the passage of time.
   D. the future value interest factor is equal to zero if the interest rate is zero.

7. Which one of the following is an example of an annuity?

   A. The receipt of RM88 in February, April, June, August, September and November.
   B. The payment of RM999 a month for year 2015, 2016 and 2017.
   C. The payment of RM444 in January, RM555 in February, and RM666 in March.
   D. The receipt of RM333 a month for three months and then RM222 a month for two months.

8. If the present value of an investment's benefits equals the present value of the investment's costs, then the investor would earn a:

   A. return equal to the discount rate.
   B. negative rate of return.
   C. 0% rate of return.
   D. return greater than the discount rate.

9. The risk-free rate is equal to the expected inflation premium plus:

   A. real rate of return.
   B. a risk premium.
   C. both real rate of return and a risk premium.
   D. the prevailing prime rate.

10. The markets in general are paying a 3.5% real rate of return. Inflation is expected to be 2.5%. BBC stock commands a 7% risk premium. What is the risk free rate of BBC stock?

    A. 1%.
    B. 4.5%.
    C. 6%.
    D. 13%

11. A holding period return (HPR) is calculated by adding the current income to the _____ and dividing this sum by the beginning investment value.

    A. average investment value
    B. selling price of the investment
    C. total income received
    D. capital gains

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12. The holding period return (HPR) can appropriately be used to:

A. compare the yield on investments held for any time period.
B. compare returns among investments that are held for one year or less.
C. isolate realized capital gains.
D. determine the required reinvestment rate for long-term investments.

13. To determine the compounded annual rate of return on investments held for more than a year, investors typically use the present-value-based measure known as yield or:

A. holding period return.
B. internal rate of return.
C. inflation-adjusted return.
D. simple return.

14. The difficulty many investors experienced in selling mortgage based securities during the financial crisis of 2009 is an example of:

A. business risk.
B. credit risk.
C. market risk.
D. liquidity risk.

15. The stock price of NestBird Sdn. Bhd. falls sharply on news that its CEO has drowned in a boating accident while on vacation. This is an example of:

A. liquidity risk.
B. event risk.
C. accidental risk.
D. flotation risk.

16. The risk that the rate of return on an investment will be less than expected due to factors that are independent of the investment, such as political, social or economic events, is called:

A. business risk.
B. financial risk.
C. market risk.
D. liquidity risk.

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17. Which of the following factors will increase the risk level of an investment?

I. A firm's decision to use a high percentage of debt financing.
II. An economic situation in which consumer prices are rising at a rapid rate.
III. The ability to trade the investment in a broad market rather than in a thin market.
IV. Unstable currency values.

A. I and II only.
B. I, II and IV only.
C. II and IV only.
D. I, III and IV only.

18. The following investments produces the same rate of return. Which investment has the greatest amount of risk?

A. Investment A with a standard deviation of 8%.
B. Investment B with a standard deviation of 18%.
C. investment C with a standard deviation of 9%.
D. Investment D with a standard deviation of 19%.

19. Investors are risk seeking, which means they:

A. willing to accept a lower return in exchange for greater risk.
B. invest only in government insured securities.
C. require an increase in return for any increase in risk.
D. does not require a change in return for greater risk.

20. Which of the following should be considered when deciding among alternative investments?

I. Time value of money.
II. Risks associated with each investment.
III. Risk free rate of return.
IV. Personal risk tolerance level.

A. I and II only.
B. III and IV only.
C. I, II and IV only.
D. I, II, III and IV.

21. If the movement of the rates of return is opposite direction between two assets over time, these assets are:

A. positively correlated.
B. negatively correlated.
C. perfectly negatively correlated.
D. uncorrelated.

22. The risk of a portfolio consisting of two uncorrelated assets will be:

A. equal to zero.
B. greater than the risk of the least risky asset but less than the risk level of the more risky asset.
C. greater than zero but less than the risk of the more risky asset.
D. equal to the average of the risk level of the two assets.

23. Which of the following will provide the greatest international diversification?

A. Directly purchasing a foreign stock.
B. Purchasing stock of a Malaysian multinational firm.
C. Purchasing an exchange trade fund.
D. Purchasing shares of an international mutual fund.

24. Which one of the following conditions can be effectively eliminated through portfolio diversification?

A. A general price increase nationwide.
B. An interest rate reduction by Bank Negara.
C. Increased government regulation of auto emissions.
D. Change in the political party that controls Congress.

25. Systematic risks:

A. can be eliminated by investing in a variety of economic sectors.
B. are forces that affect all investment categories.
C. result from random firm-specific events.
D. are unique to certain investment vehicles.

26. Which of the following statements about the Security Market Line are **CORRECT**?

I. The intercept point is the market rate of return.
II. The slope of the line is beta.
III. An investor should accept any return located above the SML line.
IV. A beta of 0.0 indicates the risk-free rate of return.

A. I and II only.
B. III and IV only.
C. II, III and IV only.
D. I, II, and IV only.

27. Omatic stock has a beta of 0.73. The market as a whole is expected to decline by 20 percent thereby causing Omatic stock to:

A. decline by 14.6%.
B. decline by 20.7%.
C. increase by 14.6%.
D. increase by 20.7%.

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28. When the Capital Asset Pricing Model (CAPM) is depicted graphically, the result is the:

A. standard deviation line.
B. coefficient of variation line.
C. security market line.
D. alpha-beta line.

29. The Strength Company has a beta of 1.09. By what percent will the rate of return on the stock of The Strength Company increase if the market rate of return rises by 3 percent?

A. 1.91%
B. 2.75%
C. 3.27%
D. 4.09%

30. Small company stocks are yielding 15.7 percent while the Malaysia Treasury bill has a 4.3 percent yield and a bank savings account is yielding 3.8 percent. What is the risk premium on small company stocks?

A. 7.6%
B. 11.4%
C. 11.9%
D. 15.7%

31. Portfolios falling to the left of the efficient frontier:

A. would be desirable if only they were possible.
B. have too much risk for the expected return.
C. do not use all of the assets in the portfolio.
D. fall within the set of feasible portfolios.

32. A portfolio with a beta of 1.06:

A. is 106 percent more risky than the overall market.
B. has less risk than the lowest risk security held within that portfolio.
C. is 6 percent more risky than a risk-free asset.
D. is slightly more risky than the overall market.

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33. The investment choice of an individual is affected by:

I. his/her tolerance for risk.
II. his/her prior investment experience.
III. his/her marginal tax bracket.
IV. the stability of his/her income.

A. II and III only.
B. II, III and IV only.
C. I, III and IV only.
D. I, II, III and IV.

34. Amanda has the following portfolio of assets.

Stock	Proportion of Portfolio	beta
XYZ	RM7,000	0.85
WES	RM12,000	1.25
EAS	RM6,000	1.10

What is the beta for above portfolio?

A. 1.10
B. 1.06
C. 3.02
D. 1.13

35. Beta measures:

A. total risk.
B. diversifiable risk.
C. relevant risk.
D. the total return.

36. Traditional portfolio managers prefer well-known companies because:

I. stocks of well-known firms tend to be less risky than stocks of lesser-known firms.
II. individuals are more apt to purchase a mutual fund if it contains stocks of well-known firms.
III. window dressing encourages the purchase of well-known stocks.
IV. institutional investors tend to exhibit "herd-like" behavior.

A. I only.
B. I and II only.
C. II and III only.
D. I, II, III, and IV.

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37. In designing a portfolio, the only relevant risk is:

A. total risk.
B. unsystematic risk.
C. event risk.
D. nondiversifiable risk.

38. Over the long term, a portfolio consisting of an FBKLCI index and an SGX index will generally produce _____ returns and have _____ risk than a portfolio comprised solely of the FBKLCI index.

A. higher; more
B. higher; less
C. lower; more
D. lower; less

39. Which of the following type of risk cannot be effectively eliminated through portfolio diversification?

A. Inflation risk.
B. Labour problems.
C. Materials shortages.
D. Product recalls.

40. When the stock market has bottomed out and is beginning to recover, the best portfolio to own is the one with a beta of:

A. 0.0.
B. +0.5.
C. +1.5.
D. +2.0.

[TOTAL 40 MARKS]

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SECTION B: STRUCTURED QUESTIONS

QUESTION 1

Mei Yen is new to the share market, she plans to invest in CIMS Corporation stock that is currently selling at RM5.55. She is confident that the stock price will go up as the business is doing well this year. She plans to buy 500 shares of the company with a 75 percent margin requirement. The bank maintenance margin is 65 percent and charge a 3 percent of annual interest on money loan.

a. Calculate the initial margin.
(2 marks)

b. Calculate the debit balance.
(2 marks)

c. Calculate the interest charges to Mei Yen if she loan for 1 year.
(2 marks)

d. Calculate the margin if the price drop to RM 3.90.
(4 marks)

e. Refer to part (d), will Mei Yen will receive margin call? If yes, how much should Mei Yen add to her account?
(5 marks)
(Total = 15 marks)

QUESTION 2

a. For each of the following scenario, calculate how many shares would the investors own and how much each share is selling after stock split.

i. Kathy currently owns 500 shares, which is priced at RM 25 per share. The stock recently underwent a stock split of 3 for 2.
(3 marks)

ii. Jom Jimat Berhad declared a 2 for 1 stock split. The stock currently sells for RM4.50 a share. Nazmi owned 200 shares of its stock.
(3 marks)

iii. Azimah owns 1,000 shares of Huma Yula company common stock, valued at RM2.50 a share. Huma Yula has declared a 4 for 2 stock split effective immediately.
(3 marks)

b. Which of the following share trading transactions involve an odd-lot or round-lot? Justify your answer.

i. buy 50 shares of stock.
(2 marks)

ii. sell 200 shares of stock.
(2 marks)

iii. buy 245 shares of stock.
(2 marks)
(Total = 15 marks)

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QUESTION 3

Based on the table below, compute Yield to Call (YTC) and Yield to Maturity (YTM), for each given bond.

(15 marks)

Bond	Coupon rate (%)	Years to Maturity	Years to Call	Call Price (RM)	Market Price (RM)
BCV	8	25	18	1,200	1,400
TRF	13	15	9	1,350	1,600
DSA	10	10	7	950	1,200

(Total = 15 marks)

QUESTION 4

Tony provided the following information to you. As a financial advisor for Tony, you are required to answer the following questions.

Fund	Shares Outstanding	Fund Asset (RM)	Fund Liabilities (RM)	Expected price (RM)
OP	100,000	500,000	200,000	1.50
WY	80,000	350,000	90,000	3.40
KR	150,000	650,000	275,000	2.90

a. What are the NAV per unit for each fund?

(3.5 marks)

b. If Tony plans to invest RM3,000 , compute the total units of each fund that he could possibly have.

(3 marks)

c. If Tony requires 10 percent return for the mutual fund invested, which of the fund shall you recommend to Tony using the HPR method? State your reason.

(8.5 marks)
(Total = 15 marks)

[TOTAL 60 MARKS]

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